

Message Text

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R 201257Z APR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7889
INFO AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT
AMCONSUL HAMBURG
AMCONSUL MUNICH
AMCONSUL STUTTGART
USMISSION USBERLIN
AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY THE HAGUE
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AMEMBASSY LISBON
AMEMBASSY DUBLIN
AMEMBASSY OSLO
AMEMBASSY MADRID
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USEEC ALSO FOR EMBASSY

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SUBJECT: BUNDESTAG DISCUSSED BILL TO INCREASE FINANCIAL
VIABILITY OF OLD AGE INSURANCE SYSTEM

REF: BONN 3107

SUMMARY: THE BUNDESTAG, ON MARCH 20, HELD THE FIRST
READING OF A BILL TO SECURE THE FINANCIAL VIABILITY OF

THE OLD AGE INSURANCE SYSTEM. THE BILL, SPONSORED BY BOTH THE GOVERNMENT AND THE SPD/FDP COALITION PARTIES (REF), PROVIDES FOR A TEMPORARY SUSPENSION OF THE "DYNAMIC ADJUSTMENT SYSTEM", WHICH TIES PENSIONS TO GROSS EARNINGS, A REDUCTION IN THE ANNUAL ADJUSTMENT RATES FOR THE YEARS 1979, 1980, AND 1981, AN INCREASE IN CONTRIBUTIONS BEGINNING IN 1981, AND THE INTRODUCTION BEGINNING IN 1982 OF A PARTIAL SELF-PAYMENT PLAN FOR THE "MEDICARE PROGRAM". PROSPECTS FOR PASSAGE OF THE PACKAGE ARE RELATIVELY GOOD DESPITE CONTINUED CDU/CSU OPPOSITION AND STRONG TRADE UNION CRITICISM. END SUMMARY.

1. A BILL INTRODUCED BY THE SPD/FDP COALITION PARTIES IN THE BUNDESTAG UNDER THE TITLE "21ST OLD AGE PENSION ADJUSTMENT BILL" (21. RENTENANPASSUNGSGESETZ) CONFORMS TO AN AGREEMENT REACHED EARLIER THIS YEAR BETWEEN THE GOVERNMENT AND THE SPD/FDP BUNDESTAG FACTIONS (REF). IT REGULATES ANNUAL PENSION ADJUSTMENTS DURING THE NEXT THREE YEARS AND PROVIDES FOR A SERIES OF MEASURES TO INCREASE THE FINANCIAL VIABILITY OF THE OLD AGE INSURANCE SYSTEM.

2. THE "DYNAMIC FORMULA" WHICH TIES PENSIONS TO GROSS EARNINGS WILL BE SUSPENDED DURING THE NEXT THREE YEARS (1979-81), AND ANNUAL ADJUSTMENT RATES WILL BE UNCLASSIFIED

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ESTABLISHED AS FOLLOWS:

1979 - 4.5 PERCENT
1980 - 4.0 PERCENT
1981 - 4.0 PERCENT.

THESE RATES ARE SUBSTANTIALLY LOWER THAN THOSE WHICH WOULD PERTAIN IF THE FORMER GROSS WAGE FORMULA WERE TO BE APPLIED (REF).

3. THE SUSPENSION OF THE GROSS WAGE FORMULA ALSO MEANS THE ESTABLISHMENT OF A LOWER "BASIC AMOUNT FOR THE COMPUTATION OF PENSIONS" (ALLGEMEINE BEMESSUNGSGRUNDLAGE) APPLICABLE TO PENSIONS WHICH BEGIN IN THE NEXT THREE YEARS (1979-81).

4. OTHER PROVISIONS DESIGNED TO BRING ABOUT A FINANCIAL CONSOLIDATION OF THE OLD AGE INSURANCE SYSTEM INCLUDE:

A) INCREASE IN OLD AGE INSURANCE CONTRIBUTIONS FROM 18 TO 18.5 PERCENT OF THE GROSS EARNINGS SHARED EQUALLY BETWEEN EMPLOYER AND EMPLOYEE BEGINNING

JANUARY 1, 1981;

B) PENSIONERS' CONTRIBUTION FOR THE FREE "MEDICARE PROGRAM" BEGINNING JANUARY 1, 1982. THE PROGRAM WILL BE ADMINISTERED IN A WAY TO AVOID CHARGES FOR PENSIONERS WITH LOW INCOMES. EACH PENSIONER WILL GET AN 11 PERCENT SUPPLEMENT ADDED TO HIS PENSION, BUT WILL THEN BE REQUIRED TO PAY THE REGULAR CONTRI-

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BUTION TO THE COMPETENT HEALTH INSURANCE FUND (NOW
11-12 PERCENT), BASED ON TOTAL INCOME, I.E.,
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PENSION PLUS INCOME FROM OTHER SOURCES.

C) A REASSESSMENT OF CLAIMS BASED ON VOLUNTARY CONTRIBUTIONS MADE AFTER JANUARY 1, 1979. THESE CONTRIBUTIONS WILL BE COUNTED FOR PARTICIPATION IN THE REGULAR ANNUAL ADJUSTMENTS ONLY IF THEY HAVE BEEN MADE REGULARLY, I.E., FOR A CONSECUTIVE PERIOD OF AT LEAST THREE CALENDAR YEARS WITH 12 MONTHLY CONTRIBUTIONS IN EACH YEAR.

5. THE BUNDESTAG DEBATE HIGHLIGHTED THE DISAGREEMENT BETWEEN THE SPD/FDP COALITION AND THE CDU/CSU OPPOSITION OVER THE PROVISIONS OF THE BILL. CDU/CSU REPRESENTATIVES REAFFIRMED THEIR BASIC OBJECTIONS TO THE "ELIMINATION" OF THE "DYNAMIC PRINCIPLE" AND CALLED THE GOVERNMENT PROGRAM FALSE AND SOCIALLY UNJUST. AS AN ALTERNATIVE THE CDU/CSU PROPOSED AN IMMEDIATE INTRODUCTION OF PENSIONERS' CONTRIBUTIONS FOR THE "MEDICARE PROGRAM" AS WELL AS A MORE ENERGETIC EMPLOYMENT POLICY TO RESTORE FULL EMPLOYMENT. SPD LABOR AND SOCIAL AFFAIRS MINISTER EHRENBURG AND REPRESENTATIVES OF THE SPD/FDP COALITION FACTIONS ARGUED THAT CONTRIBUTIONS TO THE "MEDICARE PROGRAM" WOULD NOT BE SUFFICIENT TO COVER THE EXPECTED DEFICIT OF OVER DM 33 BILLION.

6. THE TRADE UNIONS HAVE NEVER CONCEALED THEIR DISLIKE FOR THE GOVERNMENT APPROACH, BUT HAVE, NEVERTHELESS, REFRAINED FROM ALIGNING WITH THE CDU/CSU OPPOSITION ON THIS ISSUE. THE DGB CONSIDERS THE TEMPORARY SUSPENSION OF THE "DYNAMIC PRINCIPLE" OF ADJUSTMENTS TO BE A BASIC ERROR. THE DGB SUGGESTS INSTEAD A THREE STAGE INCREASE IN PENSIONERS' CONTRIBUTIONS TO THE "MEDICARE PROGRAM" BEGINNING WITH 2.5 PERCENT IN 1979, THEN 4.5 PERCENT
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IN 1980 AND FINALLY A RATE OF 5.5 PERCENT FROM JANUARY 1, 1981. IN ADDITION, THE DGB PROPOSES AN INCREASE TO 18.5 PERCENT IN THE CONTRIBUTIONS TO THE OLD AGE INSURANCE SYSTEM STARTING JANUARY 1, 1979. MINISTER EHRENBURG DECLARED IN THE BUNDESTAG DEBATE THAT THE DGB

PROPOSALS REPRESENTED A SERIOUS ALTERNATIVE SINCE THEY WOULD COVER IN FULL THE ANTICIPATED FINANCIAL DEFICIT BUT AN INCREASE IN INSURANCE TAXES BEGINNING NEXT YEAR WAS ECONOMICALLY AND POLITICALLY UNDESIRABLE.

7. HEARINGS BEFORE THE BUNDESTAG COMMITTEE ON LABOR AND SOCIAL AFFAIRS ON APRIL 12 REAFFIRMED THE NEED FOR A COMPREHENSIVE FINANCIAL PROGRAM TO COVER A DEFICIT WHICH, IN THE VIEW OF SOME EXPERTS, MAY RUN AS HIGH AS DM 40 BILLION IN THE PERIOD 1979-82. IN VIEW OF ECONOMIC UNCERTAINTIES, SOME EXPERTS ADVOCATED AN INCREASE IN GOVERNMENT SUBSIDIES. THIS GROUP ARGUED THAT THE PROPORTION OF GOVERNMENT SUBSIDIES TO TOTAL PENSION EXPENDITURES HAD DECLINED FROM 30 PERCENT TO ABOUT 17 PERCENT DURING THE LAST 20 YEARS. MOST TESTIMONY SUPPORTED THE GOVERNMENT PROPOSALS AS ADEQUATE TO COVER AN EXPECTED DEFICIT OF DM 32 BILLION.

8. COMMENT: THE CDU/CSU CAMPAIGN AGAINST THE BILL, WHICH WAS INITIATED WITH A MASS RALLY IN BAD GODESBERG ON MARCH 2, HAS LOST MUCH OF ITS EDGE IN RECENT WEEKS. THAT RALLY WAS ATTENDED BY SOME REPRESENTATIVES OF TRADE UNIONS AND WAR VICTIMS ORGANIZATIONS,

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BUT ONLY THE DGB CAN GENERATE THE MASSIVE TURNOUTS
NECESSARY FOR SUCCESS AND IT HAS DELIBERATELY RE-
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FRAINED FROM LENDING ITS SUPPORT TO THE CDU/CSU EFFORTS.
THERE ARE SIGNS THAT THE UNIONS, BOTH DGB AND DAG,
IN SPITE OF THEIR BASIC OPPOSITION TO CHANGING THE
"DYNAMIC PRINCIPLE" AND THEIR SUSPICIONS ABOUT A
"TEMPORARY" SUSPENSION, WILL ACCEPT THE FACT THAT
THERE IS NO POLITICALLY ACCEPTABLE ALTERNATIVE TO THE
GOVERNMENT APPROACH. THE CDU/CSU ALTERNATIVE IS
VULNERABLE TO THE CHARGE THAT IT WOULD COVER HARDLY
MORE THAN ONE-HALF OF THE EXPECTED DEFICIT, WHILE THE
REST WOULD BE LEFT TO AN UNCERTAIN ECONOMIC UPTURN.
HOWEVER, THE CDU WILL NOT BE DETERRED FROM EXPLOITING
THE ISSUE IN UPCOMING LANDTAG ELECTIONS. THE CDU/CSU
MAY TRY TO USE ITS MAJORITY IN THE BUNDESRAT TO SEEK
SOME MODIFICATIONS, BUT SINCE THE BILL DOES NOT REQUIRE
BUNDESRAT APPROVAL, ANY SUCH EFFORTS COULD ONLY
DELAY THE PASSAGE, BUT NOT CHANGE ANYTHING IN THE SUB-
STANCE OF THE BILL. THE GOVERNMENT AND THE SPD/FDP
COALITION PARTIES HOPE TO PUSH THE BILL THROUGH PAR-
LIAMENT BEFORE THE SUMMER RECESS SO THAT THE LAW CAN BE
IMPLEMENTED BY JULY 1.
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